

Message Text

CONFIDENTIAL

PAGE 01 BRASIL 00064 01 OF 02 041541Z

45

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 NEA-10 EUR-25 AID-20 IGA-02 OMB-01 TRSE-00

CIEP-02 SCEM-02 SCI-06 INT-08 EB-11 COME-00 XMB-07

DOT E-00 STR-08 DRC-01 /201 W
----- 018413

P R 041330Z JAN 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 0000

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 64

E.O. 11652: N/A

TAGS: ENRG, EFIN, BR

SUBJECT: IMPACT OF ENERGY CRISIS ON BRAZIL'S ECONOMY
AND BALANCE OF PAYMENTS

REF: RIO 4611

1. SUMMARY

BRAZIL'S INTERNAL ECONOMY EXPECTED TO WEATHER INITIAL IMPACT OF OIL CRISIS RELATIVELY UNSCATHED. ECONOMY UNLIKELY TO LOSE MUCH MOMENTUM IN 1974. LONGER-TERM CONSEQUENCES SHOULD BE CONSIDERABLE IN TERMS OF RESTRUCTURING ECONOMY. HIGH PETROLEUM PRICES RAISE SPECIAL PROBLEMS FOR BRAZIL BECAUSE:

- A. ITS RECENT ECONOMIC BOOM HAS BEEN LED BY AUTOMOBILE INDUSTRY;
- B. 70-75 PERCENT OF INTERNAL COMMERCE IS HAULED ON ROADS.

WHERE OIL CRISIS WILL HAVE IMMEDIATE IMPACT ON BRAZIL AND POSE SERIOUS LONGER-RUN PROBLEMS WHOSE MAGNITUDE CAN ALREADY BE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 00064 01 OF 02 041541Z

FORESEEN IS ON THE BALANCE OF PAYMENTS. BRAZIL CANNOT AFFORD

THE NEW OIL PRICES OVER LONG-RUN WITHOUT SEVERELY DAMAGING ITS ECONOMIC GROWTH.
END SUMMARY

2. AS ALREADY REPORTED IN REFTEL, BRAZIL'S PETROLEUM SUPPLIES FOR 74 ARE IN RELATIVELY GOOD SHAPE. SINCE BRAZIL HAS BEEN ASSURED FAVORABLE TREATMENT BY ARAB COUNTRIES, IT IS LIKELY TO BE SPARED PHYSICAL RATIONING AND MAJOR ECONOMIC DISLOCATIONS FOR THE IMMEDIATE FUTURE. THE GOVT HAS IMPOSED NO RESTRICTIONS ON GASOLINE CONSUMPTION ALTHOUGH PRICES HAVE BEEN INCREASED BY 24 PERCENT SINCE THE START OF ARAB BOYCOTT. THEREFORE, UNLESS REST OF WORLD SLIDES INTO DEEP RECESSION THIS YEAR CUTTING HEAVILY INTO BRAZILIAN EXPORTS, BRAZIL'S INTERNAL ECONOMY SHOULD BE ABLE TO ABSORB INITIAL IMPACT OF OIL CRISIS WITHOUT LOSING MUCH MOMENTUM. WITH THE GOVT FOLLOWING APPROPRIATE FISCAL AND MONETARY POLICIES, INTERNAL AGGREGATE DEMAND SHOULD BE ABLE TO TAKE UP ANY MODEST SLACK PRODUCED BY SHORTFALL IN EXPORTS. IN ADDITION, TO THE EXTENT THAT OTHER ECONOMIES UNDERGO SLOWDOWN, BRAZIL WILL HAVE EASIER TIME FINDING ON WORLD MARKET PRODUCTS WHICH ARE DOMESTICALLY IN SHORT SUPPLY (SUCH AS STEEL PRODUCTS), AND THUS IMPROVE ITS RELATIVE POSITION EVEN MORE. WITH OUTLOOK ON OIL FRONT STILL SO UNCERTAIN, OUR FORECASTS MAY HAVE TO BE CHANGED AS THE YEAR GOES ON, BUT, AT PRESENT, IT SEEMS REASONABLE TO ASSUME THAT BRAZIL'S ECONOMIC GROWTH (REAL TERMS) IN 74 WILL BE CLOSE TO THE UNOFFICIAL GOB FORECASTS OF 8-9 PERCENT MADE PRIOR TO MIDDLE EAST CONFLICT (73 REAL GROWTH ESTIMATED AT 11.4 PERCENT).

3. IT MUST BE EMPHASIZED THAT THIS IS A SHORT-TERM FORECAST. OVER LONGER-TERM, BRAZIL WILL HAVE TO FACE PROBLEMS OF RESTRUCTURING ITS ECONOMY TO HIGH PETROLEUM PRICES. THE EFFECTS OF SUCH AN ADJUSTMENT ARE DIFFICULT TO ASSESS AT THE MOMENT SINCE THE GOVT HAS YET TO REORDER ECONOMIC PRIORITIES IN RESPONSE TO OIL CRISIS. WE KNOW THAT HIGHER PETROLEUM PRICES POSE ESPECIALLY DIFFICULT LONG-TERM PROBLEMS FOR BRAZIL SINCE:

A. RECENT ECONOMIC BOOM HAS BEEN LED BY AUTO INDUSTRY.
B. ROUGHLY 70-75 PERCENT OF INTERNAL COMMERCE IS HAULED ON ROADS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 00064 01 OF 02 041541Z

4. WHERE THE OIL CRISIS WILL HAVE AN IMMEDIATE IMPACT ON BRAZIL AND POSE SERIOUS LONGER-TERM PROBLEMS WHOSE MAGNITUDES CAN ALREADY BE FORESEEN IS ON THE BALANCE OF PAYMENTS. THE FOLL PARAS GIVE AN ESTIMATE OF WHAT THIS MEANS AND TAKE INTO ACCOUNT ONLY THE PRIMARY (PRICE) EFFECTS OF CRISIS. NO ATTEMPT IS MADE TO MEASURE THE SECONDARY (STRUCTURAL) IMPACT.

5. IN 74, BRAZIL WILL NEED TO IMPORT ABOUT 220 MILLION BARRELS OF OIL 74 PERCENT OF TOAL CONSUMPTION). WHAT THE AVERAGE PRICE WILL BE DEPENDS ON A NUMBER OF UNPREDICTABLE FACTORS, BUT INDUSTRY SOURCES ARE ESTIMATING AN AVERAGE PRICE BETWEEN 8 AND 10 DOLLARS PER BARREL (P/B). ASSUMING A MID-POINT AVERAGE OF \$9 P/B, IN 74 BRAZIL WILL HAVE AN IMPORT OIL BILL OF ABOUT \$2.0 BILLION. THIS COMPARES WITH \$800 MILLION EXPENDED ON OIL IN 73 OR 150 PERCENT INCREASE. IN TERMS OF EXPORT EARNINGS, THE 74 OIL IMPORT BILL REPRESENTS 27 PERCENT OF TOTAL EARNINGS AS COMPARED WITH 13 PERCENT IN 73.
CRIMMINS

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BRASIL 00064 02 OF 02 041625Z

50

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 NEA-10 EUR-25 AID-20 IGA-02 OMB-01 TRSE-00

CIEP-02 SCEM-02 SCI-06 INT-08 EB-11 COME-00 XMB-07

DOT-00 STR-08 DRC-01 OPIC-12 ACDA-19 /232 W

----- 018881

P R 041330Z JAN 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 0000

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 64

6. WE ESTIMATE BRAZIL'S TRADE BALANCE IN 74 WILL SWING INTO DEFICIT BY ABOUT \$1.1 BILLION AS COMPARED WITH ESTIMATED SURPLUS \$200 MILLION IN 73 (FOB BASIS). THIS SHIFT IS ATTRIBUTABLE ENTIRELY TO HIGHER IMPORT OIL PAYMENTS, FOR IN ABSENCE OIL CRISIS 74 TRADE ACCOUNT WOULD HAVE REGISTERED VIRTUAL BALANCE. THESE 74 PROJECTIONS ASSUME 20 PERCENT RISE IN EXPORTS (AS COMPARED WITH 53 PERCENT INCREASE IN 73) AND 20 PERCENT INCREASE IN IMPORTS EXCLUDING OIL (AS

AGAINST 39 PERCENT INCREASE IN TOTAL IMPORTS IN 73). TOTAL VALUE EXPORTS IN 74 ESTIMATED AT \$7,300 MILLION AND IMPORTS \$8,400 MILLION. CURRENT ACCOUNT MAY REACH DEFICIT OF \$3.0 BILLION AGAINST DEFICIT \$1.3 BILLION IN 73.

7. GIVEN BRAZIL'S HIGH LEVEL OF OFFICIAL RESERVES, ESTIMATED AT \$6.3 BILLION, THE IMPACT OF THE 74 OIL BILL CAN BE ABSORBED WITHOUT REDUCING ESSENTIAL IMPORTS AND WITHOUT ADVERSELY AFFECTING ECONOMIC GROWTH. THE IMPORTANT QUESTION IS WHETHER BRAZIL CAN MAINTAIN SUCH A SITUATION OVER THE LONG-RUN WITHOUT AFFECTING ECONOMIC GROWTH. THE ANSWER APPEARS TO BE NEGATIVE FOR THE FOLL
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 00064 02 OF 02 041625Z

REASONS:

A. OFFICIAL RESERVES CANNOT BE REDUCED BY MORE THAN \$1 BILLION TO \$2 BILLION WITHOUT RAISING SERIOUS DOUBT ABOUT BRAZIL'S INTERNATIONAL CREDITWORTHINESS. IT SHOULD BE NOTED IN THIS CONTEXT THAT BUSINESS CONFIDENCE, FOREIGN AND DOMESTIC, IS A KEY FACTOR IN CONTINUED ECONOMIC GROWTH OF BRAZIL.
B. IMPORTS CANNOT BE SIGNIFICANTLY CUT BACK WITHOUT DAMAGING ECONOMIC GROWTH (ABOUT 75 PERCENT OF TOTAL IMPORTS ARE INVESTMENT-RELATED.
C. BRAZIL HAS A HIGH DEBT SERVICE BURDEN WHICH ALREADY EATS UP LARGE PORTIONS OF EXPORT RECEIPTS (36 PERCENT IN 73). TOTAL OUTSTANDING FOREIGN DEBT AT END OF 73 AMOUNTED TO ABOUT \$11.1 BILLION.
D. FUTURE EXPORT GROWTH CAN BARELY BE EXPECTED TO KEEP UP WITH GROWTH OF IMPORTS OTHER THAN OIL.

8. CAPITAL INFLOWS, BOTH IN TERMS OF FINANCIAL LOANS AND DIRECT INVESTMENT, CAN PROVIDE SOME RELIEF, AT LEAST OVER SHORT-TERM. BRAZIL SHOULD CERTAINLY BE ABLE TO RECEIVE THROUGH EURODOLLAR MARKET PORTION OF NEW MONIES BECOMING AVAILABLE TO OIL PRODUCERS. HOWEVER, WITH OIL AND DEBT SERVICE PAYMENTS ALREADY USING UP SUCH LARGE CHUNKS (55 PERCENT IN 74) OF EXPORT RECEIPTS, CAPITAL INFLOWS CAN ONLY DELAY THE DAY OF RECKONING NOT PREVENT IT.

9. ONE WAY OUT OF THIS IMPASSE LIES IN FULLER EXPLOITATION OF DOMESTIC ENERGY RESOURCES, BUT PROGRESS IN THIS AREA WILL BE SLOW. HYDROELECTRIC RESOURCES ARE BEING EFFECTIELY UTILIZED. COAL RESERVES ARE POOR AND INADEQUATE. THERE ARE EXTENSIVE SHALE DEPOSITS, BUT CAPITAL INVESTMENT REQUIREMENTS ARE HIGH AND CONSTRUCTION TIME IS LENGTHY. PETROBRAS HAS ALREADY EXPANDED ITS OIL EXPLORATION, BUT ITS PROGRAM IS RELATIVELY MODEST. ASSOCIATION WITH FOREIGN COM-

PANIES TO EXPLORE THE CONTINENTAL SHELF, FOR EXAMPLE,
COULD PROVIDE ADDITIONAL RESOURCES, BUT THIS WOULD INVOLVE
A CHANGE IN GOB POLICY AND WOULD RAISE SENSITIVE POLITICAL
PROBLEMS.

CRIMMINS

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 00064 02 OF 02 041625Z

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTS, ECONOMIC DEVELOPMENT, ECONOMIC CONDITIONS, AUTOMOTIVE INDUSTRY, IMPORT PRICES, HIGHWAY TRANSPORTATION, HYDROELECTRIC POWER PLANS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BRASIL00064
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Film Number: n/a
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740163/aaaacgyl.tel
Line Count: 234
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: RIO 4611
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2002 by kelleyw0>; APPROVED <09 DEC 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IMPACT OF ENERGY CRISIS ON BRAZIL'S ECONOMY AND BALANCE OF PAYMENTS
TAGS: ENRG, EFIN, BR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005